

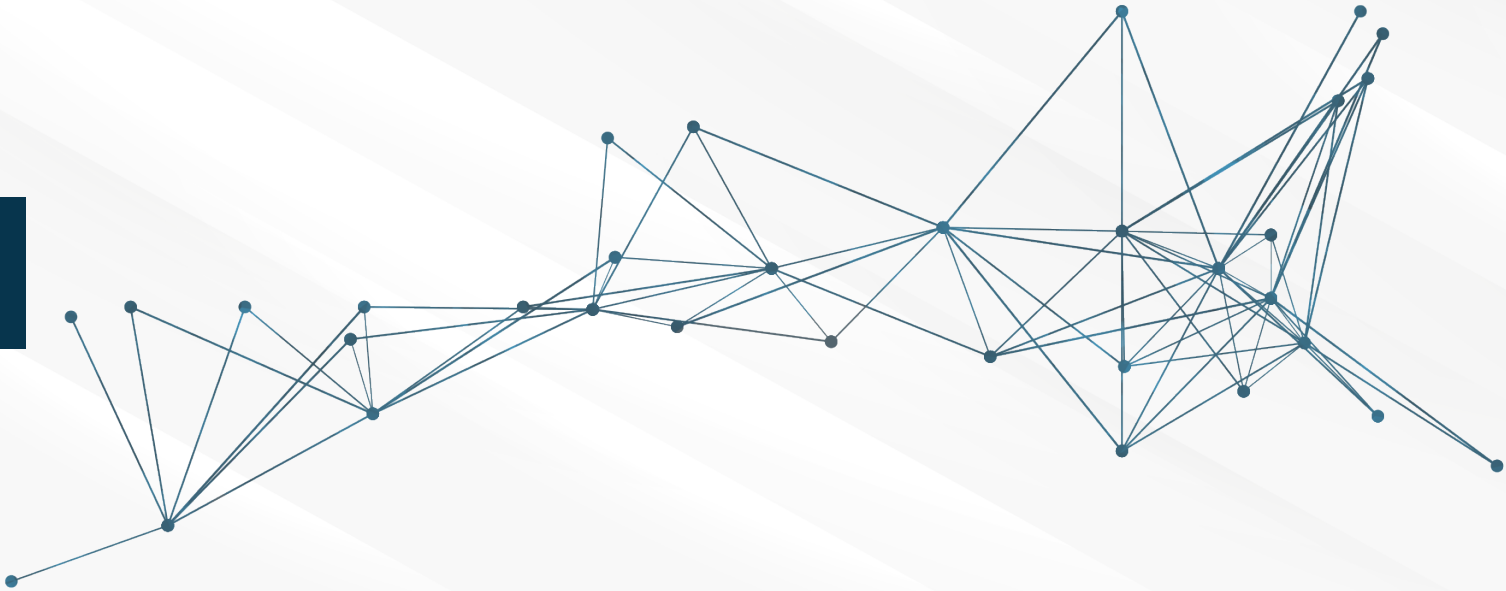
AFRICAN ECONOMIC ZONES



AFRICA
FREE ZONES
ORGANISATION



OUTLOOK



EXECUTIVE SUMMARY

Special Economic Zones (SEZs) were adopted relatively late in Africa and most African countries did not operationalize their programmes until the 1990s or 2000s. As of 2019, there are about 189 operating SEZs in Africa and 57 SEZs projects have been announced for completion. SEZs are well developed across the continent and are present in 47 of the 54 countries.



TRADE

Exports from SEZs can account for a significant share of national exports. Most African economies whose exports are growing the fastest, have a well-developed SEZ programme with one or more SEZs. SEZs have also led to export diversification. From raw agro-products to high value added agro-processing exports and from apparel and textile to electronic components. The SEZ impact on trade growth is stronger in the short-term and relatively weaker in the long-term. SEZs have a greater positive impact on exports when outward-looking and export-oriented policies are in place at the national level.

FDI

SEZs have given a significant boost to FDI flows to Africa which increased by 11% in 2018 to \$46 Billion. The prospects for 2019 are positive and FDI is expected to increase by 11% to \$52 Billion. SEZ can create attractive investment conditions and enhance foreign direct investment. In many African countries, SEZs account for significant share of country FDI, for example, it is 21% and 10% in South Africa and Kenya respectively. SEZs can influence the type of foreign investment especially in high-technology and professional sectors. Sectors located in SEZs can be linked with high economic growth rates and investment return.

JOBS

SEZs though economic development have supported employment creation in skilled and highly skilled sectors in Africa. Over the past 5 years, more than 60 million jobs have been created the majority in Agro-processing instead of traditional farming. Zones have created direct jobs and indirectly through supply chains in construction, manufacturing, mining and utilities and in highly skilled sectors such as telecommunications and digital products. The rate of job creation in SEZ programmes has significantly outpaced the total employment growth in the country. SEZs can be linked with increased labour productivity and skills improvement.

SUCCESS FACTORS

Strong long-term vision and institutional support are essential for zones success and development. Effective cooperation between different levels of government agencies and private sector is one of the key elements to attract significant investments. Infrastructure investment and creation of 'integrated clusters' are crucial to ensure connectivity and coordination between different zones and boost performances at zone and country level. Qualified labour force and Investment in skills represent a key success factor in zones including training centres and training programmes tailored to the needs of relevant sectors in the zones. Latest thinking and evidence of best practise indicates that successful SEZs adopt parallel economic programming (feasibility studies, market analysis, demand forecast, business case) and physical programming (site assessment, infrastructure review) supported by a strong organisational framework (SEZ regime, incentives and developer model).

BUSINESS MODELS

In terms of business models, Public operated SEZs are the most common model across Africa, accounting for about 42% of the total SEZs followed by Public-Private-Partnerships (30%). The nature of the zone management (public, private, PPP) does not seem to influence zone performance as previously thought. The best practices are mainly a combination of PPP and publically managed zones. The impact of zone management on performance depends on the local context. Whether zones are operated by the private or the public sector frequently is dependent on country-level policy-making and legislation.

STAKEHOLDERS

An SEZ regime requires a strong orchestrated team of public and private stakeholders in the design, set-up and operational stages, including Government, SEZ Authority, Zone developer, Zone operator, Zone regulator, Tax and customs authorities and Investment promotion agencies. The roles also evolve over time as experience and capacity is gradually built up.



1 ■ SPECIAL ECONOMIC ZONES INTRODUCTION

1.1. WHAT ARE SPECIAL ECONOMIC ZONES (SEZS) ?

Special Economic Zones are geographically delimited areas within which governments facilitate industrial activities through fiscal and regulatory incentives and infrastructure support. They are generally established with a few specific, but by no means exclusive, policy goals, with export promotion, import substitution, job creation and foreign direct investment (FDI) attraction central to almost all zones. SEZs also unlock agglomeration economies and create clusters by concentrating economic infrastructure and public goods in one geographic area, allowing industries to overcome minimum size thresholds and begin to leverage scale economies.

SEZs go by different names, including free zones, economic zones, export processing zones, industrial parks. Regardless of the name used to define them, SEZs are designed as instruments of trade, investment and spatial industrial policy. Many developing countries adopt a regime of SEZs to support partial exposure to global markets while maintaining protective barriers in a 'stepwise' approach to economic, social and political reform.

1.2. SEZS IN AFRICA

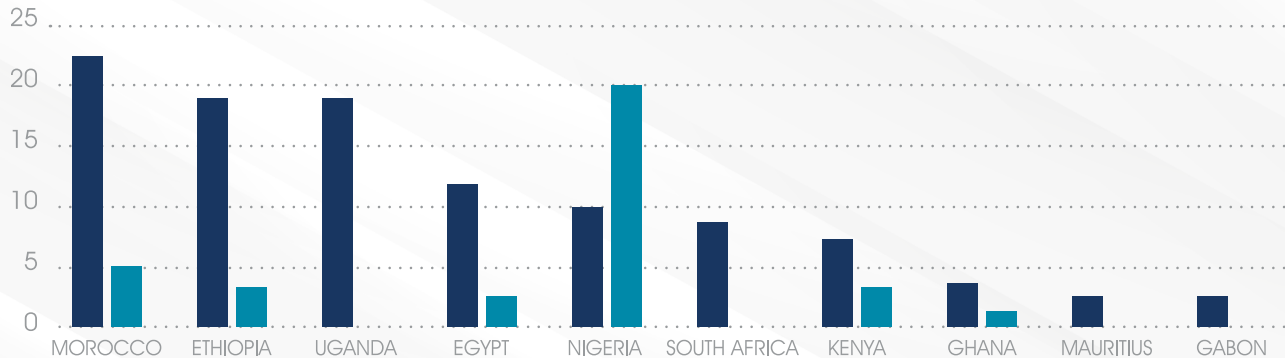
SEZs were adopted relatively late in Africa and most African countries did not operationalize their programmes until the 1990s or 2000s. Only several African countries, including Liberia, Mauritius, and Senegal, launched SEZ programmes in the early 1970s. As of 2014, the majority of countries in Sub Saharan Africa have active SEZ programmes, most of these being traditional Export Processing Zones and industrial parks.

As of 2019, there are an estimated 189 operating SEZs in Africa. SEZs are well developed across the continent and are present in 47 of the 54 countries. Eastern Africa accounts for the largest share of the total SEZs in the continent (29% of the total), followed by Northern Africa (28%) and Western Africa (19%). Southern Africa and Central Africa have a smaller number of SEZs, accounting for 15% and 8% of the total respectively.

There are 57 ongoing SEZs projects across the continent. About 50% of the SEZ projects are being undertaken in the Eastern Africa region, showing a strong commitment from those governments in pursuing economic development through SEZs strategy.

Morocco, Egypt, Nigeria and South Africa developed strong SEZs programmes. In Morocco, Tanger Med Zones has been crowned Africa's winner. Strategically located on the Strait of Gibraltar and at the conjunction of major maritime routes, the zone offers access to target markets in both Europe and Africa. It is home to more than 900 companies in various sectors such as automotive, aeronautics, logistics and textiles. Tanger Med Zones attracted several new investments from companies including Valeo, Magneti Marelli and Varroc. Investors continue to settle in the zone due to its 'plug and play' policy, highly skilled and multilingual talent pool and attractive tax regime.

The table below shows the countries with the highest number of SEZs in Africa. Morocco has the highest number of SEZs in operation (22 zones in 2018) and Nigeria has the highest number of ongoing and planned SEZs projects (20 in 2018).



SEZs programmes are usually adopted to meet countries' quantitative growth goals (i.e. investment attraction, trade promotion, job creation and exports increase), dynamic (i.e. industrial upgrading, skills development, economic diversification and structural change, as well as integration into value chains) and socioeconomic (i.e. sustainable development, quality of employment and environmental protection) objectives. Although the objective of most SEZs in Africa, especially in Sub-Saharan Africa, is to enhance manufacturing and exports in low-skill, labour-intensive industries such as garments and textiles, some countries are targeting diverse sectors and higher value addition.

2. SEZs AND FOREIGN DIRECT INVESTMENT

2.1. FDI FLOWS IN AFRICA

FDI flows to Africa increased by 11% to \$46 Billion in 2018, after successive declines in 2016 and 2017. France is the largest investor in Africa, followed by the Netherlands, the United States, the United Kingdom and China. The increase was supported by continued resource seeking FDI, diversification and recovery of the South African economy. African economies account for 3.5% of global FDI inflows and 1% of global outflows. African share of global inwards and outwards FDI grew by 0.7% and 0.1% in 2018. The prospects for 2019 are positive and FDI is expected to increase by 10.9% to \$52 Billion.

Northern African is the largest FDI recipient by region, with a 7% increase to \$14 Billion in 2018. The increase was due to elevated investment in most countries of the region. Morocco and Egypt are the largest FDI recipient in both North Africa and Africa. In 2018, FDI to Egypt decreased by 8% to \$6.8 Billion, while FDI inflows to Morocco grew by 36% between 2017 and 2018 to \$3.6 billion.

FDI to West Africa fell by 15% to \$9.6 Billion in 2018, the lowest level since 2006. The decrease can largely be explained by a substantial drop in FDI inflows to Nigeria for the second consecutive year. In 2018, FDI inflows to the country declined by 43% to \$2 Billion. Ghana was the largest FDI recipient in West Africa, in spite of FDI inflows declining by 8% to \$3 Billion in 2018. Most FDI projects are gas and mineral oriented large Greenfield investment projects.

FDI inflows to East and Central Africa were largely unchanged in 2018 at \$9 Billion and \$8.8 Billion respectively. Ethiopia is the largest FDI recipient in Eastern Africa, with an 18% increase to \$3.3 Billion. Ethiopian investment is focused on petroleum refining, mineral extraction, real estate, manufacturing and renewable energy. FDI flows to Kenya increased by 27% to \$1.6 Billion, as the country improved private enterprise climate and FDI facilitation. Kenyan FDI was targeted in diverse industries including manufacturing, chemicals, hospitality and oil and gas.

Congo recorded the highest FDI levels in the Central African region, at \$4.3 Billion, with most of the investment directed towards oil exploration and production. The Democratic Republic of the Congo recorded an 11% FDI increase to \$1.5 Billion. The investment flows are focused on mineral exploitation, especially cobalt as 60% of the world known reserves are located in DR Congo.

FDI inflows to Southern African recovered to \$4.2 Billion in 2018, from a negative \$925 million in 2017. The recovery was largely due to the increase in South African FDI inflows. FDI inflows to the country nearly doubled to \$5.3 Billion, contributing to the Governments' campaign to attract \$100 Billion of FDI by 2023. Angola has traditionally been an attractive FDI destination because of its oil and gas sector, however, FDI inflows to the country have been negative for the past two years due to both profit repatriations by foreign parent companies and the decline in the country's oil production, which weighed on new investment.

2.2. LINKING SEZs WITH FDI FLOWS

Most SEZ programmes are designed to attract national and foreign investment. Countries that traditionally struggle to attract FDI show higher propensity to adopt SEZ programmes, as almost 90% of all SEZ are located in developing economies. To ensure maximum benefits, the FDI screening mechanism is increasing and in 2018 fifty-five economies introduced at least 112 investment screening measures.

Early-stages of SEZ operation has had a higher impact on national FDI inflows. Many African countries experienced a rapid increase in FDI inflows after new SEZs became operational but sustaining high levels of FDI has proven to be difficult. For example, in Ethiopia, the FDI inflows increased three times from when the first SEZ was open in 2010 until the third zone became operational in 2013. A similar trend can be found in other African countries, for example in Morocco. After the first SEZ became operational, the FDI inflows increased rapidly, and then again after the third and fourth were opened. When the fifth SEZ was opened, the SEZ no longer had a noticeable impact on national FDI inflows.

FDI inflows to SEZs can be volatile on an annual basis, depending on the sector. For example, in Ethiopia, most SEZs are involved in the agricultural sector and agriculture accounts for a significant share of the country's GDP. After the first SEZ was opened, FDI increased by 41% and 18% after two other SEZs were opened in 2014. The FDI inflows to Ethiopia also decreased rapidly in 2015, when the country suffered their worst drought in decades, resulting in a significant fall in FDI inflows. Kenyan FDI increased by 27% to \$1.6 Billion due to investment in diverse sectors, including manufacturing, hospitality and chemicals. Investment diversification increased Kenyan resilience to oil prices, which have been increasing since 2016.

SEZ can influence the type of foreign investment, by increasing investment in high-technology and professional sectors. For example, in 2018, Greenfield FDI in high-skilled industries increased by 84% and 60% to \$33 Billion in the Manufacturing sector. A more diversified and increasing industrial base leads to a greater interaction between SEZ-based and non-SEZ based firms and subsequently increasing the clustering and spill-over effect of SEZs.

3. SEZs AND TRADE

African economies with the highest ratio of inward FDI stock to GDP all have SEZ programmes. A high ratio indicates economies with good business environments (relatively low inflation and interest rates, a stable currency, respect for intellectual property rights) and are more likely to attract international investment. Gabon has the highest FDI stock to GDP ratio with 60.7% and the country has 2 operational SEZ programmes. Ghana has the second highest ratio with 55.4% followed by Morocco with 54.3%.

The SEZ impact on trade is stronger in the short-term and relatively weaker in the long-term. In many African countries, export growth increased rapidly after an SEZ programme was introduced. For example, when Gabon opened Nkok Economic Zone in 2014, national exports increased eight times the following year. The growth was only short-term and decreased a few years later. EPZs in Kenya had a similar impact on the country's total exports, with a rapid increase after a new zone became operational. Exports increased more than ten times when the second SEZ became operational and doubled briefly after the fourth SEZ was opened.

SEZs have a greater positive impact on exports when outward-looking and export-oriented policies are in place at the national level. Some countries, such as Morocco and Ethiopia are explicitly pursuing an SEZ-driven strategy to fuel their trade growth. Morocco has 22 operational SEZs and with firms average CAGR of 10.2% between 2008 and 2018. Firms in Ethiopian zones (19

operational zones) had a CAGR of 9% during the same period. In some instances, SEZs are an opportunity to test new trade policies, before they are implemented at a national level.

Sectors located in SEZs can be linked with high economic performance. The average CAGR for 11 companies located in SEZs for coffee, tea, maté and spices in Kenya was 6.6% between 2001 and 2018 and grew by 26.7% in 2018. The Kenyan top 5 sectors with the highest growth rate in 2018, all have at least 2 companies operating in an SEZ. In Morocco, Automotive, electric machinery and equipment had the highest growth rate (16.8%) in 2018 of all exported products. The sector CAGR was also 12.3% between 2001 and 2018. There are six SEZs in the country hosting industrial facilities in Automotive, electric machinery and equipment activities.

SEZs can enhance export diversification and promote linkages in the economy by attracting a range of sectors and by stimulating technology spill over effects and clustering. Tanger Med zones in Morocco has attracted high-value generating companies operating in the automotive, aeronautics and electronics sectors. These sectors have benefited from the world class port facility, increased market access and dynamic labour market. As a result trade has increased directly and indirectly through the associated supply chains.

4. SEZs AND EMPLOYMENT

4.1. SEZs AND INDUSTRIAL JOB CREATION

One of the key rationales for Special Economic Zones is to generate greater employment. Zones are generally considered an effective tool for job creation, particularly for women entering the workforce. SEZs can have both a direct and indirect impact on a country's employment. In the last 5 years, SEZs have created more than 60 million jobs in the Agro-processing, manufacturing and service industries.

SEZs have supported employment creation in skilled and highly skilled sectors in Africa. Over the past 5 years, more than 41 million jobs have been created in the agricultural sector, the majority in agro-processing instead of traditional farming. Industrial sector employment has increased with more than 14 million new jobs, namely in construction, manufacturing, mining and utilities. Employment in highly skilled sectors such as telecommunications and digital products and services is also growing, with more than 2 million new jobs in the last 5 years.

The rate of job creation in SEZ programmes has significantly outpaced the total employment growth in the country. All high performing countries in terms of job growth have multiple SEZs. For example, in Morocco, 22 zones have created 500 000 new industrial jobs and in Nigeria 10 zones have created 300,000 new industrial jobs. Both in Morocco and Nigeria, the total country employment trend has been either negative or flat for the past few decades, while industrial employment has increased. In Ethiopia, total employment has stayed unchanged since the first SEZ was opened in 2010, however, the share of industrial employment increased by 13% in 2011. Another clear increase took place when Ethiopia opened two SEZs in 2014.

SEZs can be linked with increased labour productivity and skills improvement. The current growth model in Africa relies on low-productivity sectors, exported commodities and on public expenditure, combined with low levels of private sector investment, resulting in poor labour productivity, which was less than 1% in 2018. Evidence suggests that firms located in SEZs have higher labour productivity compared to similar firms located outside the zone. Knowledge-transfer and labour skills improvement also increases the local labour force competitiveness. The positive impact of SEZs can be expected to have a greater impact in the future, as currently, SEZs have been linked to displacement of jobs from migration as the local labour force do not meet firms requirements.

5. COMPARATIVE BENCHMARKING

5.1. COMPARING ECONOMIC PERFORMANCE FOR SELECTED COUNTRIES WITH SEZS

Economies with SEZs programmes tend to have a high level of FDI and generate significant exports value (table below).

Morocco attracted \$3.6 billion worth of FDI in 2018 and the zones operating across the country attracted investments worth \$3.8 billion (combination of national and Foreign investment) in the same year. Tanger Med with its PPP business model attracted most of this investment. Zones accounted for 30% of total exports in Morocco. In addition, the 22 operating zones in Morocco generated 500,000 jobs in 2018. Ethiopia attracted FDI of \$3.3 billion in 2018, \$160 million of which were directed to SEZs. In addition, the 173 companies operating in the 19 zones in the country created about 50,000 jobs. The four SEZs in Ghana attracted FDI worth \$90 million and the 144 companies in the zones generated about 66% of the total exports in the country. SEZs in South Africa boosted the economy and attracted FDI worth \$1.12 billion, about 21% of the total FDI inflow in the country. The 9 operating zones host 43 companies which are also responsible for the creation of about 15,700 jobs.

ECONOMIC PERFORMANCE INDICATOR: COUNTRY AND SEZS PROGRAMME LEVEL, SELECTED ECONOMIES (2018)

COUNTRY	COUNTRY LEVEL			SEZS PROGRAMME LEVEL					
	FDI INFLOW 2018 (\$) BIL	EXPORTS (\$) BIL	FDI/GDP (%)	NUMBER OF SEZS	ONGOING SEZS PROJECT	TOTAL NUMBER OF COMPANIES	TOTAL JOB CREATED IN FZ SECTOR (2017/2018)	ZONES INVESTMENT (\$)	ZONES EXPORTS
ETHIOPIA	\$3.3	\$2.5	27.7%	19	3	173	50,000	\$160 MILLION	\$339 MILLION
GHANA	\$2.9 B	\$17	55.4%	4	1	144	9,828	\$90 MILLION	\$1.94 BILLION
KENYA	\$1.6	\$6	16.2%	7	3	95	44,000	\$160 MILLION	\$369 MILLION
MOROCCO	\$3.6	\$28.5	54.3%	22	0	900	500,000	\$3,8 BILLION	\$8,5 BILLION
SOUTH AFRICA	\$5.3	\$94	35%	9	1	43	15,700	\$1.12 BILLION	N/A

SOURCE: BUROHAPPOLD ANALYSIS, 2019

THE TABLE BELOW PROVIDES ADDITIONAL, INFORMATION OF ECONOMIC PERFORMANCE WITHIN SPECIFIC SEZS IN SELECTED COUNTRIES.

ECONOMIC PERFORMANCE INDICATOR: SPECIFIC ZONES, SELECTED ECONOMIES (2018)

COUNTRY	ZONE	YEAR OF ESTABLISHMENT	SIZE (HA)	SECTORAL FOCUS	TOTAL JOB CREATED	NUMBER OF COMPANIES
MOROCCO	TANGER MED ZONES	NOVEMBER 1999	2000 HA	AERONAUTIC, ELECTRONICS, AUTOMOTIVE AND TEXTILES	80,000	900
NIGERIA	KANO FREE TRADE ZONE	1998	432 HA	LEATHER PRODUCTION, TEXTILES AGRO-ALLIED	2,000	16
EGYPT	ALEXANDRIA PUBLI FREE ZONE	1973	570 HA	TEXTILES, AGRO-PROCESSING, CHEMICALS	74,171	N/A
ETHIOPIA	HAWASSA INDUSTRIAL PARK CYCLE 1 & 2	JULY 2016	FIRST PHASE 350 HA	TEXTILE & GARMENT	21,000	19
SOUTH AFRICA	COEGA INDUSTRIAL DEVELOPMENT ZONE	2001	9259 HA (DESIGNATED)	MANUFACTURING & AUTOMOTIVE INDUSTRY	8,210	43
GHANA	ASHANTI TECHNOLOGY PARK	2004	445 HA (DESIGNATED)	COCOA PROCESSING, WAREHOUSING & LOGISTICS SERVICES	2,000	100
GABON	NKON SPECIAL ECONOMIC ZONE	2011	1126 HA	WOOD, STEEL	3,500	56
MAURITIUS	MAURITIUS FREEPORT ZONE	1992	52 HA	WAREHOUSING, MANUFACTURING, MINOR PROCESSING & LIGHT ASSEMBLY	3,100	260
ANGOLA	LUANDA-BENGO SEZ (ZEE)	2009	8400 HA/ 64 HA (AVAILABLE SPACE)	MANUFACTURING, FOOD INDUSTRY	4,000	150

Tanger Med zones, Morocco – established in 1999 and covering an area of 2,000 hectares- is an ecosystem of diverse economic and industrial activities. The zone is one of the best example in terms of export, FDI and job generation in the country. It is noted that 900 companies in the zones generated more than 80,000 jobs in the aeronautic, electronics, automotive and textiles sectors.

The Hawassa Industrial Park Cycle 1&2, Ethiopia - established in 2016 and covering an area of 350 hectares- specialises in textile and garment industry and is one of the best performing SEZ in Ethiopia in terms of job creation. In 2018, the 19 companies in the park generated 21,000 jobs, almost half of the total zones jobs in the country.

The Ashanti Technology Park, Ghana, was established in 2014 and covers an area of 445 hectares. It is home to about 100 companies which specialise in cocoa processing, warehousing and logistics services. It is noted that about 20% of the total jobs created across the four free zones in Ghana are generated in this park.

In South Africa, about half (52.2%) of the total jobs created in the SEZs sector are generated in the Coega Industrial Development Zone. The Coega IDZ was established in 2001, covers about 9,259 hectares and the 43 companies in the zone specialise in manufacturing and automotive industry.

5.2.COMPARING SEZS SHARE OF TOTAL ECONOMY PERFORMANCE FOR EXPORTS, FDI AND JOBS IN SELECTED COUNTRIES

Exports from SEZs can account for a significant share of national exports. For example, in Egypt zone exports accounted for 57% of total exports and 25% of non-oil related exports in. In Morocco exports from SEZ accounts for most non-oil related exports, standing latest at 60%. Some evidence suggests that economic activity among SEZ is relatively concentrated, with larger zones contributing to a larger share of exports.

SEZ can create attractive investment conditions and enhance foreign direct investment. In many African countries, FDI inflows are centralized to SEZs. For example, in Egypt, 80% of total FDI inflows are directed to SEZs and 60% in Nigeria. Both countries are highly oil-dependent, and most zones have oil and gas-related activities. However, FDI inflows to SEZ are also relatively high in more diversified economies, for example, it is 21% In South Africa and 10% in Kenya.

SEZ is said to contribute to skilled and highly skilled employment creation, suggesting that SEZ support highly productive and diverse employment opportunities. For example in Kenya, the employer productivity is on average 8386 Units per worker in a SEZs while the national average is only 343 Units per worker. SEZ worker productivity is around 6536 units in Uganda and the national employee productivity is only 166 units.

5.3.LESSON LEARNT: CHALLENGES AND SUCCESS FACTORS

Strong long-term vision and institutional support are essential for zones success and development. The Moroccan SEZ programme secured political support and the government was committed to create the best possible market access for its investors. The Moroccan SEZ programme is considered one of the most successful in the region.

Effective cooperation between different levels of government agencies and private sector is understood to be one of the key element to attract significant investments. For example, the Lekki Free Zone (Nigeria), learning from past experiences - where only the Federal Government of Nigeria were involved- changed the way Free Zones were governed and operated. The inclusion of State government and private sector helped catalyse the development of the Lekki Fee Zone. In addition, partnering with the private sector was one of the key success factors in the Lekki Free Zone.

Infrastructure investment and creation of 'integrated cluster' are crucial elements to ensure connectivity and coordination between different zones and boost performances at zone and country level. For example, large-scale investment in infrastructure allowed the Moroccan Tanger Med Zones to capitalise on their strategic geographic position. Coordinated investment on the port, road infrastructure and a dedicated rail link enabled the zones to attract the likes of Renault, a key anchor tenant.

Underdeveloped infrastructure and networks represented a main challenge in Athi River, Kenya constraining connectivity and logistics. Due to a lack of 'integrated cluster' of zones, investors preferred to set up single factory EPZs as they owned the land and/or factory. In addition, weak on-site infrastructure and service provision did not attract investors to the site and multiple single factory EPZs have been set up instead.

Qualified labour force and Investment in skills represented a key success factor in Tanger Med Zones, where training centres were established and training plans were tailored to the needs of relevant sectors in the zone. Investment in skills training would have been beneficial in Bole Lemi Industrial Park, Ethiopia, where one of the main challenge was the lack of local capabilities for supervision and management. In addition, lack of industrial work culture and low productivity due to no prior exposure to the same.

6. REQUIREMENTS FOR SUCCESSFUL SEZs

6.1. INTEGRATING ECONOMIC AND PHYSICAL PROGRAMMING WITH A STRONG ORGANIZATIONAL FRAMEWORK

Whilst it is acknowledged that there are no 'one-size-fits-all' solutions to SEZ development, there are a number of key success factors, which government, operators and investors should take into account when designing, implementing and operating SEZ programmes.

Latest thinking and evidence of best practise indicates that successful SEZ adopt parallel economic (feasibility studies, market analysis, demand forecast, business case) and physical programming (site assessment, infrastructure review) supported by a strong organisational framework (SEZ regime, incentives and developer model).

6.1.1. KEY PHYSICAL SUCCESS FACTORS

Site selection: This should be considered early on in developing a national SEZ strategy and should utilise a number of key criteria linked to target industry-sectors and associated investors and tenants.

Investment in infrastructure: Provision of high quality infrastructure and low cost is a key comparative advantage when looking at attracting FDI. PPP arrangements can be adopted to facilitate investment in infrastructure. This helps in differentiating SEZs using the same pallet of incentives.

6.1.2. KEY ECONOMIC FACTORS

Selection of sectors and activities: The correct choice of SEZ target industry-sectors is important to ensure that the comparative advantages of the country, region or site are fully utilised and that the key challenges and risks have been considered.

Links to national and local economy: When designing a SEZ programme consideration should be given to trade policy, strategic and sectoral focus, zone typology, policies on domestic participation and policies on access to local markets to ensure favourable conditions for facilitating backward and forward linkages within the domestic economy.

Targeted economic impact: There should be a clear vision from the inception of an SEZ programme on which economic impacts are being targeted and the extent of these impacts. Key economic performance indicators should be monitored on a regular basis to ensure that targets are being met.



6.1.3. KEY ORGANISATIONAL FACTORS

Alignment to national vision: Implementation of SEZs programmes should be considered with regards to a national economic strategy which identifies linkages to certain parts of the economy;

Robust economic rationale: Analysis of country's performance, constraints to growth and investment climate to should be undertaken to determine whether an SEZ programme is a suitable policy tool;

Selection of SEZ model: The type of SEZs development model (e.g. EPZ, FTZ, Freeports) should be aligned to the policy objectives. Innovative configurations could be implemented to present the most attractive value proposition to the market;

Formulation of SEZs working groups: The creation of such groups can be a key tool in ensuring that the full range of issues and opportunities that an SEZ programme generates is captured and to ensure lateral support from relevant stakeholders;

Consideration of investor requirements: Prioritising sector specific requirements when developing the legal, incentives and regulatory framework;

Provision of investment promotion agencies or 'one-stop-shops': The establishment of such entities are effective tools for targeting inward investment in SEZs and to facilitating a significantly more attractive environment for potential investors;

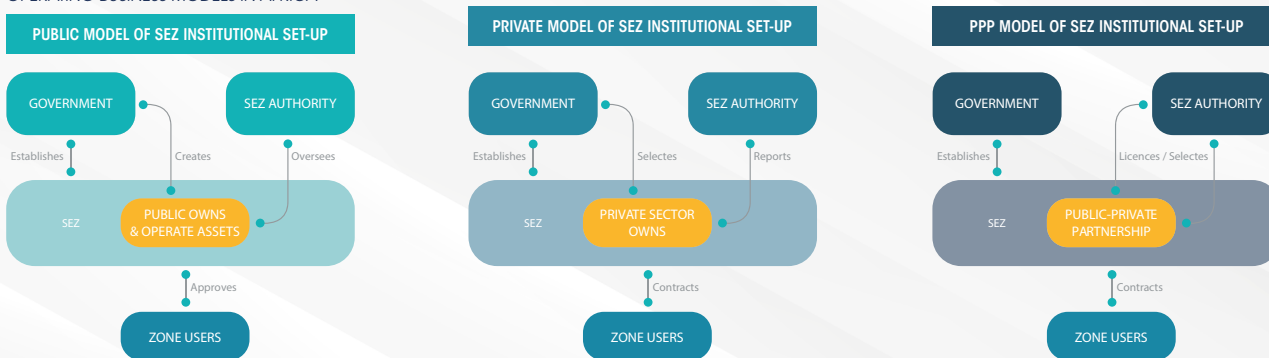
Targeted incentive frameworks: Fiscal incentives should be focused on the sectors and strategies which are being targeted by the proposed zone programme and should not be used as the main differentiator between competing zones.



7. BUSINESS MODEL

When analysing the framework in which SEZs operate, three basic models are identified in Africa: Public, Private and Public Private Partnership (PPP). The graph below depicts the roles, responsibilities and the relation between key stakeholders for each business model.

OPERATING BUSINESS MODELS IN AFRICA



There are three main business models applied to SEZs in Africa. Public operated SEZs are the most common model in Africa, accounting for about 42% of the total SEZs. Public private partnership model represent 30% of the total and the remaining 28% of the zones are privately operated.

Public model: The project ownership is under public governance and the participation from private actors is limited to - utility restructuring, corporatisation and decentralisation; and civil works and service contracts.

Private model: The private sector is responsible for the design, construction and operation of the infrastructure facility.

PPP model: The terms of a PPP are typically set out in a contract or agreement that outlines responsibilities of the stakeholders, allocate risk and assign tasks. PPPs take a wide range of forms depending on the extent of involvement and risk taken by the private partner. Some examples of the most common SEZs legal structures under a PPP model are listed below:

- **Direct Contract:** The zone owner commissions a series of design consultants to plan and design on individual lot basis and is responsible to integrate the work of all parties in order to deliver quality outcomes. The owner finance the whole project and directly pay all the parties involved. Direct contract is an attractive option when direct ownership and operation of certain aspects and facilities is required. This structure requires large amounts of expertise and experience from the owner in case of highly complex projects.

- **Special Purpose Vehicle (SPV):** Entities formed between parties for specific purpose of developing a project or service. Assets are transferred to the SPV but business decisions remain with the initial entities. This structure is often used as means of securing project finance through securitisation of future revenue streams as opposed to normal debt. SPV is also associated with bankruptcy costs reduction - given that there are less assets in a specific SPV compared to the decision-making entities.

- **Joint Venture (JV):** Two or more parties pooling resources to accomplish a specific task. Base on contract terms, profits, losses and costs are shared accordingly between the parties. Joint ventures drive a profit oriented culture, increase access to knowledge and promote efficient use of resources. However, extensive contracts and legal negotiations are required to set up a joint venture.



The nature of the zone management (public, private, PPP) does not seem to influence zone performance as previously thought. The best practice zones mentioned hereby are mainly a combination of PPP and publically managed zones. The impact of zone management on performance depends on the local context. Whether zones are operated by the private or the public sector frequently is dependent on country-level policy-making and legislation.

COUNTRY	ZONE	BUSINESS MODEL
MOROCCO	TANGER MED ZONES	PPP
LYBIA	MISURATA FREE ZONE	PUBLIC
EGYPT	PORT SAID EAST PORT PUBLIC FREE ZONE	PUBLIC
ANGOLA	LUANDA-BENGO SEZ (ZEE)	PUBLIC
BURUNDI	BURUNDI SPECIAL ECONOMIC ZONE	PPP
ETHIOPIA	HAWASSA INDUSTRIAL PARK CYCLE 1 & 2	PPP
DJIBOUTI	DJIBOUTI FREE TRADE ZONE (DIFTZ)	PUBLIC
GABON	NKOK SPECIAL ECONOMIC ZONE	PPP
GHANA	TEMA EPZ	PPP
SENEGAL	DIAMNIADIO INTEGRATED INDUSTRIAL PARK (P2ID)	PPP
KENYA	PEARL RIVER CHINA AND AFRICA ECONOMIC ZONES LTD (AEZ), ELDORET	PRIVATE

Surveys indicate that investors prefer zones to be developed and managed by an international developer as Public-Private Partnership (PPP). On the other hand, some of the biggest SEZ success stories are run by governments or state-owned enterprises, including in China, Singapore, the United Arab Emirates, and Malaysia.

Privately run SEZs have the incentive to carefully avoid risky or unpromising investments, and are not constrained by short-term political considerations. International experience from countries such as the Dominican Republic, Colombia, and the Philippines shows that the private sector brings credibility and a network of potential investors to locate in a SEZs/industrial park. Privately developed parks therefore tend to command higher prices from end users and attract higher value-added activities.

8 ■ ROLES AND FUNCTION OF KEY STAKEHOLDERS

An SEZ regime requires a strong orchestrated team of public and private stakeholders in the design, set-up and operational stages. The roles also evolve over time as experience and capacity is gradually built up. The key stakeholders are:

The government plays a pivotal role in the domestic SEZ regime. It sets the overall economic development goals, adopts underlying industrial policies and implements them through, inter alia, the establishment of SEZs.

SEZ Authority is responsible for conducting strategic planning and initial feasibility studies assessment. It also have the power to select and enter into development/operator agreements. As an autonomous agency, the authority helps relieve the SEZ programme of day-to-day political considerations that may distort its incentives. Linking such an agency to a central authority facilitates coordination across various government ministries and agencies.

Zone developer is responsible for the creation of the final land use master plan. The zone developer takes serviced plots from the project sponsor and build out the super structures for occupation by tenants. Tenants pay rent to developer or to other third party plot developers as appropriate. Developer (and other third party plot developers) pay land lease charges to project sponsor. A zone developer could be governmental, private or a combination of both.

Zone manager/Operator is responsible for the on-going operations of the site. Tenants pay a service charge to operator, which is also responsible for marketing new opportunities for the zone. The operator attracts individual investors to the zone, often in cooperation with domestic investment promotion agencies. In addition, they are responsible for the smooth operation of a zone by providing basic infrastructure services such as electricity, telecommunication and water supply, security and maintenance. The zone operator could be the developer itself or another entity (governmental and/or private). If a 'One-stop-shop' approach is used, the operator is likely to play significant part, along with regulator.

Zone Regulator is responsible for facilitating government services and for monitoring compliance. The regulator acts as a body of oversight and aims to avoid conflicts of interest between the stakeholders mentioned above. In addition, the regulator manages governmental services, licensing, provides inspection and collects fees. It is acknowledge that the zone regulator should be a third party to ensure transparency and independence. The right power structure can mitigate an SEZ programme's internal coordination challenges. International experience of failed and successful SEZs suggests that an SEZ regime should be regulated by an autonomous, powerful government authority, possibly linked to the head of state or of the government. If a 'One Stop Shop' approach is used, the regulator is likely to play significant part along with operator.

Tax and customs authorities and Investment promotion agencies may also have a role in the SEZ regime. Tax and customs authorities administer special fiscal regimes applicable in zones and undertake on-site inspections in relation to goods entering and leaving the zones. Investment promotion agencies may assist in attracting new investors to the zones, preparing ready-made investment packages, sharing information on new developments in SEZ policies and building an investor-friendly image of the country abroad. To this purpose, central, regional and local governments also play a pivotal role.

Other SEZs stakeholders may include industry associations, staff unions and zone employees' representatives, as well as civil society.

9. CONCLUSIONS

SEZs are increasingly playing a key role in Africa's industrial transformation and economic growth. Countries like Morocco, Egypt, South Africa and Ethiopia have set up world class zones, attracting major companies and global investors. For policy makers, institutional investors and international financing institutions it is crucial that zones performance data is clear, more readily available and comparable. The impact of Economic Zones on trade, jobs creation and FDI is significant.

This link would need to be examined more carefully specially in understanding the impact on local and regional economies, jobs for women and socially responsible investment. Another area would be to understand the key factors which can accelerate or support zones performance on these indicators. For example, logistics, knowledge transfer programmes, access to finance all play a key role in enhancing the spill-over effect of zones. Business models for zones are also evolving with more zones operated as PPP or privately. This would mean greater responsibility for governments to create capacity to forge new partnerships, new funding models and new institutional structures.

Benchmarking zones is useful to compare performance and zone evolution over time. However, it will be immensely beneficial to analyse challenges and success factors of Economic zones when comparing their achievement. This will support countries to develop the "next generation of zones": zones that will have to abide by Sustainable Development Goals, transition to the new industrial revolution and the digital economy, and rapidly changing patterns of international production and global value chains.



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